US Market Wrap

26th July 2022: Stocks hit on Walmart profit warning & European energy crisis on eve of FOMC

- **SNAPSHOT**: Equities down, Treasuries mixed, Crude down, Dollar up.
- **REAR VIEW**: WMT profit warning for Q2 and FY23; Kremlin to continue gas squeeze on Europe; EU nations agree to reduce gas use for next winter; US new home sales and consumer confidence miss; Libyan oil minister notes oil production is 1.1mln BPD; Biden & Xi call to cover Taiwan, Ukraine and managing US-China competition; Solid 5yr auction; IMF slashed GDP forecasts in its latest WEO; Strong GE report; AMZN to raise Prime prices across Europe.
- **COMING UP**: **Data**: Chinese Industrial Profit, Australian CPI, German GfK, EZ M3, US Durable Goods **Event**: FOMC Policy Announcement **Supply**: UK & Germany **Earnings**: Meta, Ford, T-Mobile, Boeing, QUALCOMM, Kraft Heinz, United Microelectronics; Credit Suisse; BATS, GSK, Lloyds, Rio Tinto; Airbus, Atos, Carrefour, Danone, BASF, Deutsche Bank, Equinor.

MARKET WRAP

Equities sold off throughout the session in risk-off trade tracking the poor tone out of Europe, which came in wake of commentary from the Kremlin that the Nord Stream 1 turbine is yet to be installed. Meanwhile, the profit warning from Walmart (WMT) on Monday night added to the downbeat tone. The US equity open was red and selling pressures continued throughout the afternoon led by losses in the Nasdaq, once again, ahead of major earnings and as all eyes turn to the FOMC on Wednesday (preview below). There were further reports of layoffs in tech with Shopify (SHOP) laying off 10% of its workers as it overestimated how long the pandemic growth it saw would last. Treasuries unwound the majority of their morning bid which tracked EZ debt higher on further energy crisis woes with the afternoon selling pressures a result of apparent dealer activity ahead of 5yr supply, which saw solid indirect demand and saw a 1bp stop through. The Treasury selling came despite risk-off trade and soft economic data. New home sales saw the slowest gain since the pandemic began while consumer confidence saw three consecutive monthly declines, although 1yr consumer inflation expectations eased. The Dollar surged on the risk-off trade and as a result of the weaker Euro on intensified energy concerns after sources suggested the Kremlin is to keep squeezing European gas supplies. As we head to month end, Citigroup's July month-end rebalancing model sends a signal to sell equities and buy bonds while the FX hedge rebalancing model points to net USD selling.

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FED PREVIEW: The Federal Reserve is widely expected to hike rates by 75bps on Wednesday, taking the target range for the Funds rate to 2.25-2.50%, a level considered neutral. There is no Summary of Economic Projections at this meeting thus attention will turn to any guidance the FOMC provides on future tightening increments. Current expectations, based on the current outlook, are for a 50bp move for September, before moving to 25bp moves in November and December to see a year-end rate of 3.25-3.50%, in line with market pricing. Nonetheless, the Fed will likely reiterate that any future rate decisions will depend upon their assessment of the economic outlook, particularly inflation. The latest June CPI report was hotter than expected which saw markets price in another 75bp move in July before accelerating to start pricing in over a 70% probability of a 100bp hike instead. However, pricing has now pared back in wake of several Fed speakers, including hawks Bullard and Waller, vocally supporting a 75bp hike in July while the latest UoM consumer inflation expectations also cooled for both the 1yr and 5yr horizons. Currently, markets only see a 10% chance of a 100bp move, as opposed to above 70% at the peak. To download the full preview, please click here.

NEW HOME SALES: US new home sales fell 8.1% in June to 0.590mln, beneath the expected 0.66mln and the prior 0.642mln, and as such printed the slowest pace of sales since the start of the pandemic. Moreover, inventory continued to rise, and to the highest level since 2008, and as such homebuilders are responding with price cuts, highlighted by the fact the median price of a new home fell nearly 10% to its lowest level in a year. Delving into the release, Oxford Economics note “conditions in the market for new homes are probably weaker than the headline suggests. Cancellations of prior contracts to purchase homes are reportedly rising sharply and those cancellations aren't captured in the data.”

Moreover, looking ahead, OxEco added "our forecast is for new home sales to average just around 600k in the second half of 2022, but the June pace of sales indicates there is a downside risk to that forecast. Further downward adjustments to prices may keep a floor under new home sales, however."

CONSUMER CONFIDENCE: The Headline Conference Board (CB) Consumer Confidence fell for the third consecutive month in July to 95.7 from 98.4, worse than the expected 97.2. The decline was primarily driven by the fall in the Present Situation Index, which CB says is a sign growth has slowed at the start of Q3. The Present Situation Index, the consumers' assessment of the current business and labour market condition, fell to 141.3 from 147.2. Meanwhile, the Expectations Index was steady but ticked down to 65.3 from 65.8 but a reading well beneath 80 suggests recession risks persist. CB added that concerns about inflation, particularly rising gas and food prices, continued to weigh on consumers in July. Looking ahead, Consumers were mixed about the short-term business conditions outlook and labour market outlook in July, while they were more pessimistic about short-term financial prospects. The inflation expectations saw an encouraging print, however, falling to 7.6% from 7.9% for the 1yr horizon. Note, the preliminary July UoM 1yr inflation expectations saw a 5.2% print, down from the prior 5.3%.

FIXED INCOME

T-NOTE FUTURES SETTLED 6+ TICKS HIGHER AT 119-27+

Treasuries unwound the majority of their morning bid on apparent dealer activity ahead of 5yr supply despite risk off trade and soft economic data. At settlement, 2s +2.0bps at 3.055%, 3s +2.2bps at 3.005%, 5s +0.2bps at 2.902%, 7s -1.1bps at 2.884%, 10s -1.7bps at 2.803%, 20s -2.3bps at 3.271%, 30s -2.4bps at 3.026%. Breakevens: 5yr BEI -0.6bps at 2.636%, 10yr BEI +6.9bps at 2.359%, 30yr BEI +0.2bps at 2.188%.

THE DAY: Treasuries gave up a lot of their gains after rallying throughout the morning session, tracking EZ debt higher in haven demand plays on the energy woes surrounding Europe and Nord Stream 1. T-notes hit a high at the equity cash open of 120-15+, while IFR note hedge funds sold into the morning rally with block sales to help limit the bid. Thereafter, UST's sold off throughout the afternoon ahead of the 5yr supply and anticipated FOMC on Wednesday. The selling pressure came despite risk off trade and soft US data after Consumer Confidence missed expectations, while the 1yr ahead inflation expectations cooled slightly to 7.6% from 7.9% in June, in fitting with the cooling expectations from the preliminary UoM survey. New home sales data also disappointed falling to 0.59mln, which saw the slowest pace of sales since the start of the pandemic. The 5yr auction was solid and much better than the prior after stopping through 1bp and IFR highlighted dealers weighed on the market attempting to back up prices to make the 5yr auction more attractive. As we approach month end, Citigroup's rebalancing model sends a signal to sell equities and buy bonds while the FX hedge rebalancing model points to net USD selling.

AUCTION: Overall, a solid auction and much better than the last 5yr supply. The high yield stopped through by 1bp at 2.860%, much better than the average tail of 0.4bp and the prior tail of a huge 3.2bps. The B/C was relatively in line with the average but better than the last 5yr auction. Similar to the 2yr auction, indirect demand saw a hefty rise to 66.37% from 56.5%, which was above the six auction average of 63.4%. Meanwhile, Direct demand fell to 17.81% from 19.7% and beneath the average of 19%, which overall left dealers with a 16.81% takedown, better than the prior 23.8% and six auction average 17.7%.

STIRS:

- EDU2 +1.0bps at 96.600, Z2 +1.5bps at 96.255, H3 -1.5bps at 96.430, M3 -1.5bps at 96.605, U3 -3.5bps at 96.790, Z3 -4.5bps at 96.935, H4 -4.5bps at 97.065, M4 -4.5bps at 97.185, U4 -4.0bps at 97.265, Z4 -3.0bps at 97.320, H5 -1.5bps at 97.365, M5 -0.5bps at 97.385, U5 +0.0bps at 97.375, Z5 +1.5bps at 97.360.
- NY Fed RRP op. demand at USD 2.189tln (prev. 2.192tln) across 98 bidders (prev. 100)

CRUDE

WTI (U2) SETTLED USD 1.72 LOWER AT 94.98/BBL; BRENT (U2) SETTLED USD 0.75 LOWER AT 104.40/BBL

Crude prices were choppy on Tuesday and settled lower, albeit off worst levels, as WTI and Brent trended lower following the US cash open in line with risk appetite and a rising Dollar. As WTI and Brent trundled lower through the session they hit lows of USD 94.81/bbl and 103.99/bbl, respectively. In terms of newsflow, aside from Nord Stream 1 (below), the White House confirmed it is to sell an additional 20mln bbls of oil from the SPR, as part of its previous plan to sell 180mln bbls, and the oil replenishment is to take place after the fiscal year 2023.

NORD STREAM 1: Kremlin stated the turbine for Nord Stream 1 pipeline is on its way after maintenance and it has still not been installed. Moreover, the Kremlin added sanctions against Russia complicate work of the Nord Stream 1 pipeline and hopes that the turbine will be installed sooner rather than later. Following this, according to Bloomberg sources, the Kremlin said it is to continue its gas squeeze on Europe, and sources anticipate the Kremlin and Gazprom are to continue to find reasons to keep flows limited, preventing Europe from building supplies required to meet winter demand. As such, according to the sources, Kremlin is using the NS1 disruptions to increase the political pressure on European leaders to reconsider sanctions.

PRODUCTION: Libyan oil minister noted oil production is 1.1mln BPD, and prior to this it was reported that Libya expects production to return to "normal levels" of 1.2mln BPD in 7-10 days, according to S&P Global.

GAS: The EU Commission released a statement on Tuesday highlighting some steps forward on the gas situation, and the Commission noted EU nations agreed to reduce gas use for next winter. Notably, it is to diversify sources of gas supply, speed up the development of renewables and become more energy efficient. Furthermore, the collective commitment to reduce demand by 15% is very significant and will help fill storage ahead of winter. As such, these plans intend to reduce the bloc's gas consumption in a bid to soften the impact of a potential total stoppage in Russian gas supplies. Note, on Tuesday Europe gas rose above EUR 200mwh for the first time since 9th March.

GLOBAL OIL: Nigeria raises August Bonny Crude official selling price to plus 646cents/bbl vs dated Brent; Qua Iboe OSP raised to plus 749 cents/bbl vs dated Brent.

INVENTORIES: The US Private Inventory report will be released tonight at 21:30BST/16:30EDT, and current expectations are for (bbls): Crude -1mln, distillates +0.5mln and Gasoline -0.9mln, ahead of the official EIA report on Wednesday.

EQUITIES

CLOSES: SPX -1.15% at 3,921, NDX -1.96% at 12,086, DJIA -0.71% at 31,761, RUT -0.70 % at 1,805.

SECTORS: Consumer Discretionary -3.31%, Communication Services -2.05%, Technology -1.58%, Financials -1.39%, Energy -0.88%, Materials -0.66%, Industrials -0.53%, Consumer Staples -0.47%, Real Estate +0.2%, Health +0.55%, Utilities +0.61%.

EUROPEAN CLOSES: EU CLOSES: Euro Stoxx 50 -0.80% at 3,575; FTSE 100 -0.00% at 7,306; DAX -0.86% at 13,096; CAC 40 -0.42% at 6,211; IBEX 35 -0.20% at 8,069; FTSE MIB -1.04% at 21,159; SMI -0.24% at 11,102.

EARNINGS: **3M (MMM)** was firmer after it beat on EPS and revenue and announced it is to spin off its healthcare business which will be completed by the end of 2023. However, looking ahead it cut FY EPS and revenue guidance largely due to the strength of the USD and uncertain macroeconomic environment. Additionally, MMM sees weakening consumer electronics demand, particularly smartphones, tablets and TVs and expects supply chain challenges to persist for the foreseeable future. **Coca-Cola (KO)** firmed after it surpassed St. consensus on profit and revenue alongside upgrading FY revenue view. **McDonald's (MCD)** saw gains following beats on EPS and revenue, while global and US comparable sales also topped expectations. **General Electric (GE)** gained after a strong report, where it exceeded expectations on EPS and revenue and is on track to create three independent companies. GE results were bolstered by a strong recovery in its jet engine business. **General Motors (GM)** was weaker following a miss on EPS but beat on revenue. Looking ahead, GM said it was preparing for an economic slowdown and hiring fewer people. **Raytheon (RTX)** posted a mixed report, highlighted by a beat on profit and a miss on revenue. In the commentary, RTX noted it is dealing with macroeconomic and supply chain challenges, but reaffirmed its full-year outlook.

STOCK SPECIFICS: **Walmart (WMT)** plunged after it lowered its profit outlook for Q2 and FY23, which dragged on other retailers like Amazon (AMZN), Target (TGT), and Home Depot (HD). WMT said its lower view was primarily due to pricing actions aimed to improve inventory levels and also expects a USD 1.8bln headwind in H2 '22. **Amazon (AMZN)** said it will raise fees for its delivery and streaming service Prime in Europe by up to 43% a year as it moves to counter higher costs days before it reports quarterly financial results. **Coinbase (COIN)** plummeted after it was announced it is facing a US probe into whether it improperly let Americans trade digital assets that should have been registered as securities, Bloomberg reported. **Shopify (SHOP)** collapsed in wake of news it is to lay off 10% of workers, or 1k, in a broad shake-up as the CEO said the co. made a wrong bet on a pandemic-fuelled boom in e-commerce growth continuing, according to WSJ. **UPS (UPS)** executive noted revenue and volume for Amazon (AMZN) is coming down but it held Amazon to contractual volume. Moreover, UPS expects Amazon revenue will be less than 11% of the co.'s total revenue by year-end. **Paramount (PARA)** dipped 3.6% after Goldman Sachs double downgraded the stock to 'Sell', citing growing macro headwinds. **Comcast (CMCSA)** reportedly eyes **Vizio (VZIO)** and others for smart TV acquisition, according to Protocol citing sources; said talks occurred in 2021 and early 2022 but it is unclear how far discussions progressed or whether they are still ongoing.

FX WRAP

The Dollar was firmer on Tuesday, hitting a high of 107.290, ahead of major risk events, namely the FOMC on Wednesday, where the Fed is widely expected to hike rates by 75bps, taking the target range for the Funds rate to 2.25-2.50%, a level considered neutral. There is no Summary of Economic Projections at this meeting thus attention will turn to any guidance the FOMC provides on future tightening increments (full preview here). Elsewhere, earnings are coming thick and fast with mega cap names Microsoft (MSFT) and Alphabet (GOOGL) reporting after market, as well as Meta (META) and Qualcomm (QCOM) on Wednesday. In terms of Tuesday, it was risk-off as US equities saw losses following a profit warning from Walmart (WMT) and Shopify (SHOP) noting it intends to cut 10% off its workforce. Lastly, US data was disappointing as new home sales printed the slowest pace of sales since the start of the pandemic and consumer confidence fell short of expectations.

Activity currencies were predominantly lower against the Buck aside from GBP which was flat, whilst the CAD and antipodeans saw similar losses, which were capped at roughly 0.4%. The Pound was the relative outperformer, and as such Cable saw highs of 1.2090, losing momentum ahead of the key 1.21 and saw lows of 1.1965. For Sterling, it needs help from a less hawkish Fed, or a more forceful BoE, to extend its rebound from July's lows, where the BoE is next week. Antipodeans and the Loonie were modestly lower and were impacted by the general risk aversion sentiment, although the crosses traded in narrow ranges, highlighted by AUD/USD and NZD/USD trading between 0.6983-0.6923 and 0.6280-0.6226, respectively. Nonetheless, overnight RBNZ Governor Orr stated in addition to remit review, RBNZ will also review recent performance in conducting monetary policy and will assess inflation and employment outcomes relative to targets. Lastly, as well as risk off the Loonie saw headwinds from the lower oil prices as WTI saw losses of circa USD 1.50/bbl. Looking ahead, aside from the global aforementioned risk events, there is Australian CPI on Wednesday, retail sales on Thursday, and Canadian GDP on Friday.

Safe-havens, CHF and JPY, were mixed, as the Swissy saw slight gains, and hence the G10 outperformer, whilst the Yen was flat against the Buck, albeit the next best G10 performer. The aforementioned currencies benefitted of the risk-off sentiment, but they did trade within tight parameters, highlighted by USD/CHF trading between 0.9668 and 0.99617 and USD/JPY 136.83-136.29. Regarding the session, the Swissy and Yen were sought as havens, which came after early Treasury yield weakness reversed after holding key support and despite U.S. data again proving disappointing. Moreover, technicians note USD/JPY fell just short of the 21DMA at 136.845.

EUR was the clear G10 underperformer on Tuesday, and hit lows of 1.0108. The Euro was already reeling amidst an even sharper retreat in EGB yields that were indicative of heightened recession risk before the IMF slashed GDP forecasts in its latest WEO as well as reports that Russia’s Kremlin intends to keep squeezing gas flows to Europe with the aim of preventing the continent from building sufficient storage to cover increased demand during the winter months. However, this exacerbated fears over a total shutdown irrespective of EU nations, bar Hungary, agreeing to a 15% consumption reduction and to diversify sources. Accordingly, EUR/USD remained depressed near lows within a wide 1.0250-1.0108 range alongside Euro crosses. In fact, EUR/JPY fell further than the headline pair in percentage terms to around 138.14 from 139.83 by virtue of the fact that the Yen was firm due to UST-JGB spread convergence and overall risk dynamics, while EUR/CHF hit new 7 ½ year lows sub-0.9750 vs 0.9866 at one stage.

EMFX was mainly lower against the Buck, with only the BRL seeing marginal gains. TRY, RUB, and ZAR saw losses with the latter the underperformer. Lastly, NBH raised rates by 100bps to 10.25 (prev. 9.25%) and the central bank said it will continue with its cycle of rate hikes and ready to intervene using every instrument in its toolkit if necessary. RUB was weaker on the ongoing tensions with the West and the energy concerns with the EU while the EU extended Russian sanctions for another six months.